

# The incidence of the property structure of the Spanish companies in the levels of corruption

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The present work intends to analyse the relation between the property structure as a corporate government variable and the levels of corruption. Empirical analysis will be held by two econometric models and the database comes from a questionnaire done by the World Bank to 606 enterprises, for the year 2005. Previous empirical evidence is limited and it has been a matter to consider to carry out the research. The results obtained show that a higher number of majority shareholders in the property, leads to higher levels of corruption. There is a significant percentage of the sales contracts for bribery. Also, the frequency in which payments for own benefits are carried out is reduced, revealing an inverse relation between corruption and percentage of majority shareholders. Also, negotiation with state agencies contribute to corruption.

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# The incidence of the property structure of the Spanish companies in the levels of corruption

## 1. INTRODUCTION

The current economic and financial crisis Spain is going through makes one think about the background that has maybe provoked this devastating situation, causing the enterprises to become closer each day to having to consider risk management. From the enterprise's point of view, a proper risk management is vital for the adequate performance of the organisations.

Currently, the CNMV has approved the Good Government Code so that listed companies, the motor of economy, perform an adequate management and transparency of their acts, offering trust to the shareholders and generating value to the business (CNMV, 2015). This is why, one of the most important subject that is considered nowadays is the business management. Specifically, a good corporate government system implemented by the organisations is especially important, as depending on the techniques held the enterprise will be more transparent, will give more trust to the investors and thus, its market value will be greater (CAF, 2005). There are several research works about corporate government policies carried out by the firms, which evidence the positive relation between the implementation of policies against corruption and a greater number of independent consultants, diversity and size of the council (Frias, Rodriguez and Garcia, 2014), as well as more specific topics related to the administrative board's structure and the efficiency of the enterprise (Rodriguez, Fernandez and Rodriguez, 2013). However, the lack of previous empirical evidence to these research works does not allow to obtain firm conclusions.

A type of risk the enterprises have to face is the risk of fraud and specifically one of the government and society's biggest concerns in the last years is corruption, as it is a worldwide problem. Corruption is present in every country of the world, in developed countries as well as in developing ones (ABC.es, 2014). In this line, there is research about how corruption affects the enterprise's growth, like Nguyen and Van Dijk's work (2012) published in the Journal of Banking and Finance in which the effect of corruption on private and public enterprises is distinguished, finding evidence of how corruption on private enterprises has a negative effect on its growth, in comparison to public enterprises whose grow would be greater. We must not forget all the corruption cases going on in our country, such as Barcenas, Terra Natura, Emarsa and many others that are also being investigated. If the corruption act is detected, it has negative effects on

the enterprises from fines and prison sentence to loss of business reputation, affecting its profitability. To avoid consequences, the organisations are carrying out control mechanisms implementing good government practices and giving the directives a positive image for their ethic behaviour (Frias et al. 2014). In fact, it is the public bodies who spot the problem and commit to take action. As the report of the fight against corruption of the EU issued by the European Commission point out (2014) *“The Government has admitted the need to face corruption as a priority... it has adopted a Resolution over a wide range of actions to combat corruption”*.

In order to show the corruption level present in Spanish enterprises, a study of the results of a questionnaire made by the World Bank in 2005 has been done. As current data is limited, this date has been considered as it is previous to the crisis that began in 2008 and it will allow us to see Spain's previous corruption level. In next studies it would be interesting to compare the situation with the current one.

The same way, through the before mentioned questionnaire, the Spanish enterprises property structure has been analysed as a key variable of corporate government implementing in the organisations. Taking into account that in Spain what prevails is the concentration of the property, a useful internal mechanism so that the investor and manager align their interests is, contrary to Anglo-Saxon countries where the mechanisms are external and scattered property prevails (Minguez and Martin, 2003), the property structure being at the same time a key variable of corporate government and that lacks of previous analysis about the relation with corruption. This is why the present work will try to obtain empirical evidence about the relation of the property structure variables with corruption, as property structure can offer privileges, giving rise to act in corruptive ways. Thus, the present work's purpose is to obtain evidence over the relation between corruption and the property structure for Spanish enterprises, to be able to know the background of the enterprises that have leaded to the current context of corruption at the same time.

First of all, a descriptive analysis will be done over the variables related to property structure as a factor that influences the corporate government quality, like percentage of shares that the majority shareholders own, number of majority shareholders, sales percentage to the State and property gender. Specific features of the target enterprises that will be studied will also be taken into account, such as sector and the size of the business.

Regards the way to measure corruption in Spain, the variables taken into account from the World Bank, will be the frequency in which the enterprises carry out payments o

presents to their workers and the percentage of sales contracts that they offer to the government. The research will be carried out by an econometric analysis with quantitative and qualitative variables. The sample conducted in 606 Spanish companies for the 2005 period, shows for one model that to have more than one majority shareholder in the enterprise, from a corporate government's point of view, leads to higher corruption levels in contrast with the next model which shows an inverse relation between percentage of majority shareholders and corruption, with greater corruption indexes when negotiating with the public administration, having the manufacturing sector less incidence.

The structure of this work will consist of, first, a theoretical framework where previous works done by other authors will be mentioned and where different corporate government variables will be taken into account, putting the variables to study into context. Then, the hypothesis will be established. Also, the importance of the corporate government's role will be highlighted. Secondly, the methodology will be defined explaining the sample and the model chosen for the data analysis that will allow to verify if there is a relation between the variables or not. Third, data will be analysed and the results will be presented and interpreted. Finally, the most important points of the research and the study's constraints will be mentioned and the possible research lines will be exposed.

## 2. THEORETICAL FRAMEWORK

The current crisis that Spain is facing has forced the enterprises to be transparent as a previous step to investors and different institutions relying on their corporations, as well as to generate business value. This is why, transparency is considered a factor to be taken into account as corporate government technique. According to Díaz (2014); quoted by Urroz (2010) "Corporate transparency is a corporate government policy of a company, in charge of passing on information to the partnership about its commercial and financial activities, its management, its results and contribution to the partnership through the Corporate Social Responsibility... it is a tool that allows a company to make known all the aspects that create value for it".

However, decisions regards the level of transparency are established by the owners whereas it is the senior management who put them into practice, and these are controlled by the administrative council. This is why, due to the agency conflicts that can exist between owners and the senior management derived from the separation of property and enterprises control, comes the necessity of creating a contract through

which the owner contracts and agent to manage the organisation in exchange for remuneration. The owner contracts the manager in order for this one to generate business value. The conflict will come when the interests of the owners geared to the maximisation of the benefits long term, are different to the manager's, who wants short term benefits as well as to be well seen by his acts. There is also an information asymmetry, which makes the agent be able to act by his own part behind the owner's back having an opportunistic behaviour. Argument according to the agency theory of Jensen and Meckling (1976).

Another way of supervising and controlling the management is the Administrative Board, which according to Minguez and Martin (2003): "The Administrative Board is considered the last body in the internal control. Shareholders can incite the senior management to behave according to their interests. This way, the council can name, fire and establish the advisors remuneration, as well as the general guidelines and actions that the senior management should follow in their professional performance. One of the Administrative Board's roles is to ensure the minority shareholders interests. One of the biggest problems in Spain are the problems between minority and majority shareholders.

A concept to consider as a key aspect in corporate government is the property structure, as according to this, the shareholders will have one type of influence or another on controlling the senior management (Core, Holthausen, Larcker, 1999; Hermalin and Weisbach, 2003). When talking about property structure we mean if it is concentrated in few shareholders or if it is dispersed, as well as if it is in the family's hands or of external investors. Previous literature gives evidence of how the property structure affects decisions on transparency, concluding that when the business property is in few people's hands, this means, its structure is concentrated, then the need of giving information about how the company is working is smaller, because it can have consequences on its reputation and on the company's long term development (Wang, 2006).

Basing the literature review on the regulations, according to the Organisation of the economic and cooperation development (from now on OECD), who issued the corporative government principles in 1999 for the first time and that have been reviewed in 2004 and recently updated in 2015, in which the next concepts regards property structure are remarkable: A) Principle 20. The minority shareholder's interests will be safeguarded from the shareholders who are in possession of major control and will have equal treatment in the property area. B) Principle 32. This one establishes the

shareholders rights such as the selection of the administrative board members. This last one, is the supervisor body of the senior management as it is through these that the shareholders will check the shares done by the seniors, as well as they will establish the remuneration system.

These principles offer a guide so that the enterprises act according to the business ethics. Following the research line, the accomplishment of principle 20 reduces the majority shareholders excess of power allowing those who are in possession of less control to be able to exercise the rights they have. It is in the practise where the problem main-main arises (Morck, Wolfenzon and Yeung, 2004; Young, Ahlstrom, Bruton and Jian, 2008) characterized by the fact that the shareholders who have major control exercise at the same time as senior management, and also, control the administrative board. As a consequence, remunerations and benefits not linked to the organisation are established, whereas, the minority shareholder remains basically not linked to the enterprise. This creates the existence of a possibility to commit fraudulent acts in own benefit of those who have major control. On the other hand, principle 32 focuses on avoiding the senior management to participate in the administrative board avoiding the power abuse, that they sometimes use in own benefit.

Several research defend the negative relation between the executive president and the general director, due to the existence of massive power concentration in a person's hand who tends to behave in an opportunistic way in own benefit, such as corruption. This is where corruption, a fact on the daily news, is significant. Taking into account that research is presented in risk management terms and in the corporate government quality given the importance that the OECD (2004) gives: "The political leadership are now more aware of the good corporative government approach to the stability of financial markets, investments and economic growth. Enterprises are able to understand better up to what extent the good corporative government contributes to boost its competitiveness" which will be considered adequate when "they have the ideal people, with appropriate skills to supervise reviews and balance reports properly" (Gonzalez, 2010).

As I mentioned before, one of the corporate government components is the property structure, defined as "the level of concentration that determines the power distribution and corporate control, or as the proportion of shares with a right to vote which are direct or indirect property of the family members or the senior management of the administration board, from now on CA" (Owusu-Ansah, 1998; quoted by Briano and Saavedra, 2014). Regards corruption, it is considered to be "the abuse of a position of

trust to obtain a dishonest benefit” which comes given by three conditioning factors: the opportunity, the benefit and the risk. The first one, is created when a person has too much power with not enough control. The second one, is given by the benefit given to the corrupt, and regards the risk, the probability of the corrupt act being detected, with its corresponding punishment. There is a great variety of types of corruption, among them, bribery, presents, commissions and favours, always when affecting the decision of whom perceives it (Argandoña, 2007).

Important research on the effects of corruption in countries has been done, such as Nguyen and Van Dijk's (2012) work, where effects of corruption in Vietnam are analysed differentiating between private and public enterprises, seeing the private ones as less harmed, even favoured. The idea established by many authors of corruption making economic growth difficult is corroborated (Argandoña, 2007; Nguyen and Van Dijk, 2012). Regulations and the quality of the government are key aspects in the level of corruption of a country, there is evidence on the different levels of corruption that come given by the policy carried out by the different local governments.

Also, corruption has repercussions on the enterprises benefits, acting as a tax and reducing the efficiency levels. Although if seen from the corruption's point of view as bribery, there are positive conclusions regards helping exportation and innovation. Among the main causes of using these practises it is talked about the obstacles from the governments that emphasize the previously named research (Nguyen and Van Dijk, 2012). Sharma and Mitra (2015), conclude that according to the complexity in the regulations of the system in bureaucratic terms there is more chance of bribery. Authors recommend to take action for policy, taxation and reforms.

Regards the property structure, the family businesses face less severe agency problems derived from the separation between property and control, but bigger agency problems between controlling and minority shareholders. The absence of transparency in GC favours the integration of the family members in the CA, without the interference or disagreement of the minority shareholders. Thus, the minority shareholder's concern about transparency in GC practises in family businesses, is reduced as these offer a superior financial performance (Ashiq, Chen and Suresh, 2007). The main problem comes the majority shareholders that control the administrative board conflict with the senior management or practise themselves as directives holding too much power with more moral risk (Mork et al., 2005; Young et al., 2008).

Taking the property structure as a variable of corporate government into account, many different aspects may be noted that are relevant in the analysis. First, the concentration



of the property means a reduction in transparency of the enterprises and this means more opportunities to defraud, according to many authors the property into the hands of majority shareholders takes necessity of major government quality for minority shareholders. Thus, there is a positive link between the concentration of property and corruption (Vander and Willekens, 2008; Barako, Hancock and Iza, 2006 and Gandia, 2008). Empirically, through their study based on a test of average comparison, the authors have reached the conclusion that there is a significant difference between scattered and concentrated property. Second, works like Chen, Chen and Cheng (2008) defend that the family business tends to make profit of the benefits that offer a major outreach of information, and thus, property into the hands of family members provokes a major corporate transparency. On the contrary works like Bartholomeuz and Tanewski's (2006) defend that in family businesses the problem is between the controlling and minority shareholders.

Basing the study on Spanish enterprises where the business fabric is composed mainly by small and medium enterprises, the property is expected to be concentrated, whereas the Spanish listed companies are characterized for being "typical of continental Europe countries different to the Anglo-Saxon model, is characterized by a very concentrated property into the hands of few controlling shareholders, very expanded cross ownership among dominant shareholders, slow change in property blocks of shares that have the control, and controlling market of enterprises not very operating due to the limited level of development of the capital markets (Cuervo-Cazurra, 1998 and La Porta et al., 1999). To all this the limited protection that the company law confers to the investors and minority shareholders who have no control capacity and the presence of non dual organic structures must be added, in which one only administrative board performs both tasks supervisor and directive (De Miguel et al., 2004; De Andres et al., 2005) quoted by Sanchez, Baixauli and Lucas (2013).

However, according to Garcia, Rodriguez and Castillo (2013) many factors have to be taken into account when determining the organisations property structure, such as the culture of the own country where the business is perceived as something to do with family and values of full dedication that have to be directed by them, when talking about a concentrated property. Owners adverse to risk act the same way. Another factor to take into account is in the explanation regards the difference between countries with scattered or concentrated property is the shareholders rights protection, as the lack of rights make the shareholders not claim shares.

Going from Jensen and Mecklin's (1976) theory, a more scattered structure provokes more moral risk problems, whereas a concentrated structure avoids this problem, as there is no agent. Castillo (2012) establishes a comparison where the agent is the directive/owner that can have incentives to perform illicit activities and on the other hand, the principle that in this case are the supervising investors. The article poses as the main factor, the effectiveness of legal institutions raising the idea of the existence of an inverse relation between limited institutions effectiveness and the increase in the improper appropriation of resources. Thus, the article provides a base of the analysis to perform in the present work where it is intended to demonstrate the relation between the property structure of Spanish enterprises and corruption.

Other previous research provide evidence of how the property structure affects a country's growth (Garcia *et al.* 2013) concluding that those countries where the property is concentrated will lead to a country with less growth as there will be no incipient participation in the market values causing, among other matters, lack of finance.

There is little empirical evidence of the relation between property structure and the level of corruption in the enterprises. This is why the significant level of the variables corruption and property structure will be analysed in the next section, and the relation between them will also be established.

### 2.1. Hypothesis approach

Four attributes are identified in property structure that can have an influence on the corruption level reached in 2005 by Spanish companies; the gender of the enterprise property, percentage of shares that the majority shareholders hold, number of majority shareholders and the incidence of the enterprises that put the State into corruption.<sup>1</sup>

Hereafter, the hypothesis of the research that is going to be held:

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<sup>1</sup> Other variables that can have a significant roll in the analysis are: the shareholder's typology, to whether he or she is a foreign investor, from a family origin, financial institutions, state, among others. As well as, if the director is from individual or family origin. However, they have been left out to simplify the model, and because of the peculiarities of the sample and possible multicollinearity.

### 2.1.1. Women in business property

According to the empiric study held by Frias *et.al* (2013), the presence of women in the administrative board has a positive effect in the implementation of policy against corruption and bribery and as a matter of fact, according to the quoted author basing his hypothesis in authors like Betz, O'Connell and Shepard (1989); Ibraim and Angelidis (1994); Stultz (1979) and Harrigan (1981), women are more moral and have more ethic behaviours and generally, the activities they are involved in are far from being lucrative, maybe having less perception of the organisation's economic needs, and tending to ethic matters. Being his hypothesis useful and moving it to the woman's roll in the enterprise property, the following hypothesis is established:

#### **HYPOTHESIS 1**

The woman's presence in the enterprise's property gives rise to less probability to carry out a corruptive act in the business (this means, there is a negative relation between corruption and female owner).

### 2.1.2. Percentage of shares that the majority shareholders own

Regards concentration and scattered property, there has been a lot of research. Such as Garcia's (2003) in which is stated that a concentrated property allows major management control and thus has better results, whereas it is difficult for a scattered property to carry out a proper control because of the lack of agreements on decision taking. On the other hand, a concentrated property leads to a major power level that can lead directives to carry out contrary acts to the business ethics. Therefore, although the benefits that the property concentration reports because of allowing a better management control and thus of the benefits, it is obvious to establish that the relation between corruption and property concentration is positive. Therefore, the following hypothesis is stated:

#### **HYPOTHESIS 2**

The major percentage of shares a shareholder may have (major property concentration), it is presumed that there is a higher tendency to corruption. There is a positive relation between the variable shares that the major shareholder represents and the enterprises corruption.

### 2.1.3. Number of majority shareholders

As it is well mentioned previously, the agency problem between property and control nowadays goes further than and focuses on the problems between the majority and minority shareholders. Problem which arises due to the conflicts of interests among shareholders. In the present section, the supervision problem is introduced. According to Diez, Garcia and Lopez (2013), there is a tendency toward the assumption of risk, from the controlling shareholder's side, in exchange of profitability. When there is an opportunity to grow, the shareholders with major control are less adverse to risk and decide to invest in order to obtain a major profitability and generate value to the business. However, when the majority shareholder has not enough control this one needs the rest of the shareholders support. This involves a more distributed business supervision among shareholders that avoids the main shareholder to carry out actions of opportunism. On the contrary, when the shareholders of major control have too much power, the problem of who sustains who arises, because of the influence these can have on the administrative board. Works of authors like La Porta, Lopez, Shleifer and Vishny (2001); Burkart and Panuzi (2001) focus on the power problem that these have on the minority shareholders in own interest. According to Hu and Izumida (2008) and Bennedsen and Nielsen (2010); quoted by Diez, Garcia and Lopez *"the relation between the supervision capacity and expropriation possibility is conditioned by the property participation of the main shareholders"*. The same way, other studies introduce the same supervision problem (Steinherr and Huveenens (1990); quoted by Garcia (2003).

According to what previously established, the reasoning means that the more majority shareholders the enterprises have, and if these have enough influence to act on their own, it is more likely for them to carry out own benefit acts and thus contribute to corruption, as they should all agree on their criminal activity.

Therefore, the following hypothesis is stated:

#### **HYPOTHESIS 3:**

The number of majority shareholders has a negative relation with corruption.

### 2.1.4. The enterprises sales to governments or state agencies

It is obvious to think that there can be a relation among the enterprises that have sales with the governments and the public workers. Among one of the questions to consider is the bribery the employees can accept in exchange for the contract to be done. This way, the employer achieves the work and the employee has an extra amount of

money. A way of supporting this statement is through Hellmann and Kaufmann's work (2001), in which they talk about the influence the enterprises have on the State's powers when fixing laws to obtain advantages, generally, barriers to the competence, in exchange for unofficial payments to public employees. Spanish companies, more specifically multinational companies have made the most of their capacities to negotiate with the local governments obtaining important benefits (Jimenez, Duran and de la Fuente, 2011).

Knowing that it does not mean to influence legislation but for the contract to be accepted by the administration, it is true that it would make sense to take it to this interpretation.

If on the other hand, the roll of public enterprises is established on the achievement of certain sales of goods or service delivery, a more direct relation is foreseen, as the occasions to be corrupt are more and the consequences if spotted are minor (North, 1990). However, given the lack of public enterprises that have taken part in the analysed questionnaire, it is not suitable to distinguish.

#### **HYPOTHESIS 4:**

The enterprises that sell to the State tend to be more corrupt than the ones that do not, therefore it is established that there is a positive relation between the enterprises who sell a percentage to the governments and the level of corruption in the business fabric.

### **3. DATA AND METHODOLOGY**

In the present section, the methodology carried out for the study is defined. First, the data source is specified. Second, the tools used to carry out the analysis are described. And last, the variables and the model to study are established.

#### **3.1. Data processing**

The data is from Enterprise Surveys (<http://www.enterprisesurveys.org>), The World Bank, made in 2005 for the Spanish enterprises case. The sample consists of 606 Spanish enterprises that present information regards the sector that the studied sample works on. The questionnaire focuses on different topics of the financial environment such as access to finance, commercial (regards exportation), governmental (regards legal barriers), corruption, property structure composition, competence levels, clients solvency, bargaining power with suppliers, etc. Among different matters to be considered, there is the possibility of bias, as it involves a small subset of the public

sector enterprises, participating therefore enterprises that operate in the private sector. This is why, interesting variables to include in the model have been dismissed because of the low participation level in the public enterprises questionnaire. Regards the number of observations taken into account in the models<sup>2</sup> that are going to be considered, we have 507 observations for model 1 and 470 observations for model 2. The reason why the number of the sample is reduced to the mentioned observations is because of the absence of answers from the enterprises in the considered variables, which is a reason for exclusion.

### 3.2. Methodology

#### 3.2.1. Sample and data collection

The method used to collect and then process is divided in two parts. On the one hand, we have a descriptive analysis of the variables subject of study. On the other hand, a quantitative research approach will be carried out through two regression models, in which it is intended to analyse the relations between the variables adopting, therefore, an explanatory approach. In both models the explanatory variables significance is contrasted. Whilst for model 2 the contrast will be done with the statistic F, for model 3 it will be analysed through Person distribution. The reason for this last one is the necessity of transforming certain variables into discrete.

The models could present multicollinearity problems that have been taken into account when determining the model variable, excluding those variables that could present problems.

#### 3.3. Dependent variable

In this section the subject study dependent variable is described, corruption. The goal is to measure the perception people who have done the questionnaire have about the level of corruption in Spain. Being two variables representative that will lead to two models that will try to explain its relation in such a way that it will be possible to do a comparison.

The variable (i) Payments refers to the irregular/additional or presents payment frequency that the enterprises of their business line have to make to the workers regards taxes, permits, regulations, services, etc. The variable is expressed in a ranking taking values between 1 and 7, where 1 is never and 6 always (7 has been removed because the enterprise did not know if acts like this were carried out). The

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<sup>2</sup> The models will be defined in section 3.5. Model specification.

second dependent variable defined as (ii) Contract refers to the percentage of the contract that they pay to the government when they do contracts with them or the percentage of the value that the presents represent.

### 3.4. Independent and control variables

The following variables are considered determining in the property structure for the enterprises that have done the questionnaire, over which previous hypothesis have been established according to previous literature. First, the gender of the owner of the business is included, *Ownergender*, being a binary variable taking value 1 if it is a woman and 0 if it is a man, considered therefore a dummy variable<sup>3</sup>. Second, the percentage of shares that the majority shareholders own of each one of the businesses that have done the questionnaire is taken into account (*%largestshare*). Third, the number of majority shareholders that own the percentage of previous shares (*numberlargest*) is gathered. Last, one of the variables considered relevant in the study is represented by the percentage of sales intended for the government or state agencies (*Government*).

At the same time, two control variables have been included in order to gather specific features of the organisations in the study. On one hand, a binary variable is included, named *dummy*, which represents the manufacturing industry sector (*s\_manufacturing\_dummy*). The database classifies the enterprises according to the sector in which they operate. Given the number of enterprises that belong to the manufacturing sector and given the logistic process that the products require, sub-products and raw materials in purchases and sales where the probability of generating fake purchases and sales is less than in services enterprises, it has been considered crucial in the analysis. The variable has value 1 if it is an enterprise from the manufacturing sector and 0 if it is from another sector. Secondly, the size of the business is taken into account, expressed in number of employees. The values the variable gathers go from 1 to 3, being 1 for enterprises with 2 to 49 employees and thus considered a small business. Value 2 is for enterprises with 50 to 249 employees, considered a medium business. And last, value 3 is for big enterprises with 250 to 9999 employees.

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<sup>3</sup> The variable to study has a limitation the owner can be 1 or more, in the case of being more than 1 they can be man and woman. However, the questionnaire only allows one unique response. Therefore, it is considered that the chosen gender in each enterprise is the most important one in the organisation

### 3.5. Model specification

In order to determine the impact or the seriousness of the Spanish enterprises corruption, two relations have been established between different variables so that according to them the level of influence of the property structure on corruption can be determined.

The general model used is a multivariate regression model:

$$Y = X\beta_i + Z\gamma_i + \mu_i \quad (1)$$

Where; X is the property structure variable as a corporate government variable, Z gathers the control variables, Y represents the impact of the enterprises on the corruption level and  $\mu$  is the error term.

As mentioned previously, the model will be estimated around 2 proxies, “payments” and “contract” so that a comparison can be done with the extracted results. Therefore, the models to be estimated are the following:

$$\text{Contract} = \beta_0 + \beta_1 * \% \text{ largestshare} + \beta_2 * \text{numberlargest} + \beta_3 * \text{s\_manufacturing\_dummy} + \beta_4 * \text{Government} + \beta_5 * \text{ownergender} + \beta_6 * \text{size} + \mu \quad (2)$$

$$\text{Payments} = \beta_0 + \beta_1 * \% \text{ largestshare} + \beta_2 * \text{numberlargest} + \beta_3 * \text{s\_manufacturing\_dummy} + \beta_4 * \text{Government} + \beta_6 * \text{ownergender} + \beta_7 * \text{size} + \mu \quad (3)$$

Where  $\mu$  is the error term and  $\beta_0$  is the constant term.

In order to contrast the significance for the variables of each one of the models independently (2 and 3), two hypothesis contrasts will be done. For model 2, a hypothesis contrast is established with the statistic F, characterised for being a multiple linear regression analysis. Whereas for model 3 (logit model), the analysis of significance has been carried out through Pearson’s distribution function,  $\chi^2$  (X2) that represents the goodness of fit. When the model to be estimated has quality dependent variables, then we turn to a discrete choice model. As Medina (2003) explains “The usefulness of the discrete choice models versus traditional econometrics lies in the fact that the first ones allow the modelling of qualitative variables, using techniques for discrete variables. It is said that a variable is discrete when is consists of a finite number of alternatives that measure qualities. This characteristic requires codification as a previous step to modelling, a process through which the alternatives of the variables turn into codes or quantic values, susceptible of being modelled using econometrics techniques.”



Specifically, the mentioned model is of multiple reply with organised data as it gathers more than two values, contrarily to models with dichotomous reply. The model gathers the probability of observing a result, for the individual  $I$ , corresponds to the probability of the linear function, together with the random error, to be within the interval of the estimated cutting points. With this, values within 0 and 1, 1 and 2, 2 and 3 and so on are considered.

## 4. DATA ANALYSIS AND RESULTS

In the present section the results of the descriptive analysis are shown. Then, the results obtained from the multivariate analysis are presented done through and estimation of Ordinary least squares, from now on OLS<sup>4</sup>, for model 2 and Generalized least squares, from now on GLS<sup>5</sup>, for model 3 catalogued as Ordered logit model.

### 4.1. Descriptive analysis

The following table, 1 show the descriptive analysis results developed through a statistic summary. It contributes evidence of the corruption level that the Spanish enterprises stand together with their property structure.

**Table 1:** Descriptive statistics of the target study variables

VARIABLE (PROXY)	Mean	S.D.	Min.	25th P.	Median	75th P.	Max.
<b>Size</b>	1.369	0.647	1	1	1	2	3
<b>S_manufactuin g_dummy</b>	0.221	0.415	0	0	0	0	1
<b>Ownergender</b>	0.341	0.474	0	0	0	1	1
<b>Numberlargest</b>	1.723	1.743	1	1	1	2	25
<b>X.largestshare (Percentage)</b>	69.84	30.06	1	50	66	100	100
<b>Contract</b>	0.306	1.642	0	0	0	0	15
<b>Government</b>	2.713	11.48	0	0	0	0	100
<b>Payments</b>	1.558	0.996	1	1	1	2	6

The table shows the descriptive statistics of the variables under study.  
Source: Own preparation.

<sup>4</sup> For the accomplishment of the estimation of OSL some assumptions must be accepted, established by Gauss-Marakov: Linearity in parameters, random sampling, zero conditioned average, non perfect collinearity and *homocedasticidad*. If assumptions are accomplished, OSL is the best estimator (Medina, 2003).

<sup>5</sup> In the discrete choosing models, the estimation by OSL entails some problems that can be solved through the estimator GLS (Medina, 2003).

#### 4.1.1. Explanatory variables

To start, the results of the explanatory variables will be detailed, being also representative of corruption.

Referring to the variable contract, in average term the Spanish enterprises that did the questionnaire pay 0,31% of their contracts to the employees for irregular payments or representative of the value in presents. It represents quite a high value, if it is considered as a percentage of profitability and if the number of present observations are considered, being the maximum value 15% the value of the contract for bribe. It has to be taken into account that the value will always depend on the value of the contract which could be a significant quantity when talking about contracts with voluminous numbers and on the contrary with small numbers.

Regards the variable payments, with 1,56 average value, the enterprises state that in average term they hardly ever (between never and seldom) do payments for presents for permits, taxes, regulations, services in own interests... Proof that Spanish companies do not tend to corruptive acts.

#### 4.1.2. Explained variables

Hereafter are the explained variables analysed representative of variables that commonly refer to the property structure.

First, the variable Government produces a 2,71% average value, this percentage expresses the quantity that the enterprises give to sales in the public administration. As is noticeable it is a low value, which means that the enterprises give most of their sales or service delivery to private enterprises or final consumers. However, those enterprises that give part of their sales to the government, which percentage is significant, among them the highest value reached is 100%, should be named.

Secondly, the variable numberlargest is described. In average values, the number of majority shareholders that own the companies is 1,71, so the decisions the majority shareholders make could be supervised by the rest of investors inasmuch as there is more than one majority shareholder reducing their power capacity and reducing the occasions of being corrupt. Such an interpretation will be valid as long as the shareholders do not hold 100% of the shares or a percentage that may offer most of the company's control, in that case the rest of shareholders will lake supervision power to control them. As minimum value, data show that there are enterprises that have one majority shareholder and a maximum value of 25 majority shareholders. In this last

case, the occasions of being corrupt are reduced because everyone's coalition is required to carry out a fraudulent action.

Regards the variable `ownergender`, we can see in average terms a 0,34 value. Such value explains that, there are generally more men owners than women, as it is close to 0. As it is a binominal variable that takes on value 1 if the property is woman and 0 if it is man<sup>6</sup>.

Last, the variable `X.largestshare` expresses the percentage that majority shareholders have of each enterprise. In average term, these own a 69,84% of the shares. Such percentage explains that in general the companies that did the questionnaire have majority shareholders with high control power in the organisation. The maximum percentage is 100% and the lowest is 1%.

#### 4.1.3. Control variables

The variable `s_manufacturing_dummy`, offers an average data of 0,22 which means that nearly a quarter of the enterprises that did the questionnaire operate in the manufacturing sector. The reason for choosing this variable is because of the high number of enterprises that operate in the manufacturing sector.

Regards the variable `size`, in average term the enterprises that took part in the questionnaire are in the second interval, between 50 employees and 249. As they produce a 1,37 value and calculating, in average term the enterprises that were involved in the questionnaire are medium size with around 169 employees.

#### 4.2. Multivariate analysis

The obtained results are shown in table 2. As a comparison the results of the estimated models have also been established.

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<sup>6</sup> As mentioned previously, the limitation that the variable presents is a result of the following assumption: the reply of the enterprises to the property structure has been given taking the most representative person in the organisation into account in the cases where there is more than one owner and with diverse gender.

**Table 2.** Summary table of explanatory models of the level of corruption in Spain

Dependent variable	Model 1		2 Model	3
	<i>Contract</i>		<i>Payments</i>	
Independent variable	Coef. (Std. Err.)	P-value	Coef. (Std. Err.)	P-value
Size	-0.025 (0.137)	0.854	-0.198 (0.193)	0.306
S_manufacturing_dummy	-0.057 (0.178)	0.750	-0.548 (0.264)	0.038**
Ownergender	-0.096 (0.153)	0.529	-0.173 (0.214)	0.421
Numberlargest	0.300 (0.079)	0.000***	-0.139 (0.122)	0.255
Largestshare	0.005 (0.003)	0.145	-0.011 (0.004)	0.014**
Government	-0.001 (0.008)	0.866	0.017 (0.010)	0.075*
Cons.	-0.438 (0.410)	0.286		
Number of obs.	507		470	
F	0.012		---	
CHI2/X <sup>2</sup>	---		0.04	

The table reports regression results of corruption using two models. The first model refers to the percentage of the contract that the companies use to pay the government. The second model shows the frequency of use of payments to officials. (1) Standard errors are in brackets. (2) \*, \*\*, \*\*\* denotes to be significant at 10% ( $p < 0.10^*$ ), 5% ( $p < 0.05^*$ ) and 1% level ( $p < 0.01^{***}$ ), respectively.  
Source: Own elaboration.

Model 2 produces a 0.012 P-value for the F statistic, so for a 5% and 10% significance level the null hypothesis is rejected, and it is concluded that taking the critical value as a statistic, the probability of rejecting the null hypothesis (NH) when is true is 1.16% and thus the error probability is tiny (type I error). This is why that the alternative error has been accepted (H1), that leads to accept that the independent variables explain the model.

Once seen that the variables all together explain the model, it is needed to determine which variables are significant to certain levels of confidence and what the relation is with the explanatory variable. The variables that have an influence on corruption in model 2 is only one, numerlargest, this one represents the number of majority shareholders that each enterprise has. The number of majority shareholders is representative of corruption, with a 0.000 p-value (to a 90%, 95% and 99% confidence

level). According to the 0.300 coefficient that it produces, there is a positive relation between the number of majority shareholders that an enterprise has and corruption. This leads to the following argument: the more shareholders with more control the companies have the higher the levels of corruption will be in these enterprises, basically because of the power held, which although is scattered among shareholders with major control, is concentrated in shareholders with enough power to have an influence on the administrative board, supervising body. (The model tries to explain the following: as the number of majority shareholders increases to 1, the level of corruption increases to 0.300), meaning that if the majority shareholders have the capacity of agreeing to be corrupt, it will carry out more opportunistic acts. Regards non significant variables we have: size of the enterprise, gender of the owner of the majority shareholders, the percentage of sales to the government and the manufacturing sector.

In view of the obtained results, hypothesis 3 established previously is rejected. As the result obtained for the variable numberlargest, negative relation between corruption and lack of supervision, is different to the established in hypothesis 3. This hypothesis stated that, the bigger the number of majority shareholders is, the bigger the necessity of joining up to be corrupt is and thus the bigger the difficulty to carry out these acts. However, the obtained evidence holds that the major number of majority shareholders the companies have, the higher the levels of corruption will be, therefore the empirical evidence does not support the hypothesis.

Model 3, logit model, expresses a 0.04 probability for the chi2 statistic. With it, to a 5% and 10% significance level it is concluded that there is a significance of all the explained variables together. The models reveals that the variables which have significant effects in this case are two independent variables and one control variable.

Regards the explained variables that have an effect on regression, we have:

- The percentage of sales to governments (Government), with a 0.075 p-value (significant  $p=0.10$ ). The sign of the obtained coefficient is positive, this means that forefront the one percent increase in sales to governments the level of corruption will increase 0.075%. Evidence shows that the implication of the governments in the private enterprises leads to higher levels of corruption.
- The percentage of shares that the majority shareholders own (X.largestshare), has obtained a 0.014 p-value accepted to a 95% and 90% trust level. In this case the relation is inverse, the higher percentage the majority shareholders own the lower the levels of corruption will be.

Going on with the analysis the accepted hypothesis of model 3 in the study should be determined.

- Within the variables that have a significant influence in the hypothesis of model 4 associated to the sales to state agencies, it has been accepted, because as previous evidence shows, Hellman and Kaufmann (2001); Jimenez *et al.* (2011), certain enterprises have negotiation capacity to influence in the government decisions in exchange for accepting unofficial payments.
- Hypothesis 2 related to the percentage of shares that the majority shareholders own has a significant influence but according to the hypothesis stated in the study it can be rejected, as the previously established relation was positive and the result of the regression is negative. The obtained results give more support to Garcia's previous study (2003), in which she states that a concentrated property structure leads to a major directive control contrarily to a scattered property. The concentrated property, as the author explains, allows to reach agreements in a more effective way.

Finally, the control variable that is significant in the model is the one referred to the manufacturing sector with a negative relation, this means, those enterprises that operate in the manufacturing sector have less influence on corruption. One of the possible explanations could be that, the manufacturing sector in Spain is characterized by enterprises with a number of employees lower than 10, in the 83,4% of the totality of enterprises that the sector is composed of (Europa press, 2016). As dealing with small enterprises they may act simultaneously as owners and directives. It is therefore an absolute concentration and it is not good for the organisation to be corrupted regards reputation. Also, according to the definition of corruption<sup>7</sup> the size has an influence on corruption. Although in a certain way, the benefit they obtain can "compensate", regards the impulse that some bribery can offer the enterprise, the cost it has if the act is spotted. However, the evidence obtained shows that in Spain, the enterprises that operate in the manufacturing sector have a negative influence on corruption.

## 5. CONCLUSIONS

Corruption, characterized by being currently present, is one of the concerns taken into account by public bodies and the society in general. It is used as a mean to obtain benefit, such as, the obtaining a contract, a permit or to restrict the access to the competence, in exchange for the bribery to public institutions. The act is carried out

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<sup>7</sup> Previously defined in the theoretical framework.

because there is an opportunity that, focused on the enterprise's area, it focuses on the property structure understanding this one as a scattered property and a concentrated property in hands of majority shareholders. The last parameter that is part of the corruption concept is the risk, understood as the probability of being detected and penalized for it.

Generally, corruption is carried out because of the power concentration in the property, together with the attractiveness of the benefit to obtain and the absence of risk of being spotted.

Previous literature shows that corporate transparency is a mean to create business value but there is more to it, the enterprises that are more transparent tend to be less corrupt. The decision on the transparency levels leads to agency problems, where the owners interests are different to the directives ones, but the real problem is within the little power the minority shareholders have in comparison to the excess of power the majority owners may have, who sometimes carry out own benefit actions. A concentrated structure leads to a minor necessity of transparency, and consequently leads to major levels of corruption in the enterprise.

Previous literature emphasizes in both positive and negative aspects regards the composition of the property structure involved in corruption. Although it is true that the implementation of corporate government measures, together with an adequate management of the business risk and the policy setting of social responsibility is essential for the control and reduction of corruption, legal regulations are also needed, specially protection measures for minority shareholders, that will act against corruption. These legal regulations are a key technique to reduce the corruption of a country.

In the present study, the relation between the property structure as a variable of corporate government and the level of corruption in Spanish enterprises is analysed, for a sample of 606 enterprises, in the period of 2005. Two explanatory models are presented that link both variables in such a way that there is more than one result regards the achieved study.

The results obtained reveal that there is a significant relation between the composition of the property structure and the level of corruption in Spain.

The results obtained for model 2 indicate that, the bigger the number of majority shareholders the higher percentage of the contract they give to irregular payments and the bigger the influence in corruption levels is. There is a positive relation between the supervision capacity among majority and minority shareholders and corruption. Among

other causes that explain the result obtained we have Hu and Izumida (2008) and Bennedsen and Nielsen's work (2010); quoted by Diaz, Garcia and Lopez (2013) in which the conducting string focuses on the supervision capacity according to the majority shareholder's participation in the organisation. Therefore, the obtained empirical evidence after estimating model 2, does not support the stated hypothesis. Regards the hypothesis that have no incidence in the study, as there are no significant results according to the established trust levels<sup>8</sup>, we have: percentage of majority shareholders, sales to the governments and the woman's roll in property. Whereas the non significant control variables are size of the business and the manufacturing sector.

Regards model 3, the conclusions have been more varied being able to accept a hypothesis and considering a control variable relevant. Basically, the achieved results indicate that private enterprises that operate with public agencies tend to bribe. This statement contrasts hypothesis 4 which is also supported by many authors such as Hellman and Kaufmann (2001). The results prove the negative relation between the percentage of shareholders that an enterprise has, the concentration of the property and the frequency with which the enterprise carries out payments or gives presents to the employees. These are more frequent when a shareholder owns less shares. The descriptive data describe that in average term the shareholders with major control own 69%, which makes us think that in Spain the enterprises have a concentrated structure, according to (Cuervo-Carruza, 1998 and La Porta et al., 1999; quoted by Sanchez, Baixauli and Lucas (2013)). However, the hypothesis has not been accepted as its approach is inverse.

On the other hand, the manufacturing sector in Spain presents an inverse relation with corruption, this sector represents a quarter of the enterprises that did the questionnaire and is a sector characterized for having less than 10 employees. Therefore, it is concluded that these enterprises act in a more ethical way.

In both models there is evidence that shows a relation between property and corruption. Although it is true that, the frequency in which payments to employees are carried out (model 3) is not determined by the proportion of shares that the investors own, there is evidence that shows that these payments increase as the contracting relations do with the public entities. Also, with model 2 there is evidence on the positive relation between the number of majority shareholders, this means property concentration, and the percentage of the contract that goes to unofficial payments. All in all, there is a significant relation between the property structure and corruption levels.

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<sup>8</sup> Statistically significant levels are 1%, 5% y 10%.



The present work has diverse limitations that could be dealt with in future research. First, the participation of public enterprises in the study is very small, therefore it would be interesting to bring in a selective sample in the future that would allow to show the differences in corruption level between private and public enterprises. Second, the obtained data goes back to 2005, a previous date to the current crisis, although the data base did not offer updated data, it would be interesting to compare them with the nowadays data as corruption cases are happening very often. Third, a hypothesis over the influence of women in the business property in terms of business ethics is established, however only one owner is taken into account. Future research could analyse the effect of more than one owner. Last, one of the study's limitations that has made the process more difficult has been obtaining information about corruption.

To end, to determine the effectiveness of the corporate government system it would be interesting to analyse in the future the relation between the committees, the administrative board and the corporate fraud. As an adequate management of the risk will come given by the composition of the administrative board and the formation of committees. One of the most important rolls is the independent advisor's roll, the separation between the president and the CEO and the auditory committee for being one of the committees that enjoys independence, capacity and competence to manage risk in an adequate way. The same way, the corporate fraud is a variable with absence of interpretation given the difficulties to obtain the information considered interesting for future investigations.

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